

BEFORE THE ARIZONA CORPORATION C



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COMMISSIONERS

Susan Bitter Smith, Chairman

Bob Stump

Bob Burns

Tom Forese

Doug Little

ORIGINAL

In the matter of the Application of EPCOR Water Arizona, Inc., for a determination of the current fair value of its utility plant and property and for increases in its rates and charges for utility service by its Mohave Water District, Paradise Valley Water District, Sun City Water District, Tubac Water District, and Mohave Wastewater District.

Docket No. WS-01303A-14-0010

9 March 2015

Notice of Filing a  
Testimony Summary  
by  
Marshall Magruder

Due to travel and other commitments, I am unable to present an Opening Comments on this date. I have attached a Testimony Summary that contains what I would use for my Opening Comments.

I have been scheduled to give my oral testimony and receive cross-examination on March 23, 2015.

RESPECTFULLY SUBMITTED on this 9th day of March 2015.

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Arizona Corporation Commission

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**TESTIMONY SUMMARY**  
**for**  
**Marshall Magruder**

I am an individual intervening party, representing myself. I am here to uphold the Arizona State Constitution. Its Title XV, Section 12, states:

**"Charges for service; discrimination; free or reduced rate transportation**

**"Section 12. All charges made for service rendered, or to be rendered, by public service corporations within this state shall be just and reasonable, and no discrimination in charges, service, or facilities shall be made between persons or places for rendering a like and contemporaneous service, ..." [Emphasis added]**

In the "last" rate case, Commission Order No. 71410 (p. 78) **ordered** the company to propose to consolidate in ALL its water and wastewater "districts" in the "next rate case" and to conduct informative town-hall meetings. The Company has NOT complied, nor has this Order been revoked.

First, the company wants to consolidate its charges and has made this very clear in an ongoing wastewater rate case with all its rational applicable to Section 12. I use the term "combine" since there is much misinformed opposition to the term "consolidate." The company itself is consolidated throughout except for financial accounting for old water company acquisitions. It is noted that **all** Arizona electric, natural gas and communications companies have consolidated statewide rates.

Second, EPCOR is one company with water and wastewater services. Tubac uses only its water services in one of its many service areas. There are some 185,000 EPCOR customers with less than 600 in the Tubac service area. Because our service area is small, almost any significant cost has a much greater impact on our rates when compared to larger areas, some over 25,000 customers.

Third, these water service areas exist because a half-century ago, Citizens Utilities acquired many smaller water companies but has never combined their rates. Each service area is maintained as a "profit center." This means each service area is required to have its revenue, derived from its ratepayers, to always exceed its expenses for a positive Rate of Return. This has made all the smaller service areas rates yo-yo much higher than the larger areas with resultant "rate shock" after rate cases. Our Constitution says rates shall not discriminate between "persons or places." They now do.

Fourth, the company has not adjusted the way it collects rates over the years, and just keeps rolling along and letting these rate differences between service areas widen evermore. Each area is a profit center as rates are not combined. Each area **MUST** make a profit for the company so we now see extreme divergences in the **present** rates. For example, the first 1,000 gallons of water now cost a small residential customer less than **\$0.73** in Sun City but costs **\$1.90** in Tubac, **\$0.88** in Mohave, and **\$1.05** in Paradise Valley. Why? This results in wide service area differences in the present rates.

These rate differences (or discrimination) were **proposed** to separate even more in the service areas

- Sun City to \$0.78, an increase of 5 cents
- Mohave to \$1.55, an increase of 67 cents
- Paradise Valley to \$1.41, an increase of 35 cents
- **Tubac to \$5.33, an increase of 343 cents**, so rate differences will continue to diverge.

Lets look at the **present** and **proposed** cost for one thousand gallons in each service area. For a typical median customer, where consumption is when 50% use more and 50% use less water we see

- Tubac at 5,000 gallons, present cost is **\$3.00**, proposed is **\$6.83**, a **\$3.83 increase**
- Sun City at 6,000 gallons, present cost is **\$1.36**, proposed is **\$1.66**, a **30 cent increase**
- Paradise Valley at 10,000 gallons, present cost is **\$1.25**, proposed is **\$1.36**, a **21 cent increase**,
- Mohave at 5,000 gallons, present cost is **\$1.84**, proposed is **\$2.50**, a **64 cent increase**.

The highest **proposed** commodity rates for small residential customers in Tubac is **\$10.81/1000** gallons when consumption exceeds 20,000 gallons. The next highest, Paradise Valley, when using over 80,000 gallons is **\$3.50/1000** gallons, a **\$7.31 difference**, for using **over 4 times more water**.

During the course of this case, these rates have decreased but these rate design differences continue.

Do these examples, from many, just reasonable? NO.

Do they discriminate between locations? YES.

My other two issues are related to the first, once rates are combined company-wide.

There are rate "tiers" or steps when the cost of water increases at a breakpoint. I propose that the First or lowest tier be for the first few thousand gallons with cost about \$1.00 per 1,000 gallons. This is for ALL residential and business customers. This low rate First Tier provides a 'lifeline' for all customers, especially the lower income customers. This embeds a low-income relief solution without needing a presently dysfunctional, costly, and ineffective low-income proposal. Also, Service Charges should be low, as feasible, for all smaller metered customers, including commercial customers.

The higher rate tiers will require increased costs to meet the company's required revenue and is also an effective means to conserve water. There should be **at least five residential and commercial Tiers**, so that customers can see an achievable "break point" as a goal for reducing their water costs, just like tax rate brackets do when considering income tax rates.

All service areas in this case used LESS water per customer than in their last rate case. Why? One significant factor is because the rates increased so much the last time. Many dug wells to avoid it.

I am looking at the big picture, not just Tubac, the worst example of rate differences. I recommend combine rates, establish a low First Tier rate with at least five Tiers and use higher rates as use increases while meeting the company's revenue needs, rates are considerably lower in most areas. Future rate cases will be less complex, rate shock vanishes and the company more efficient.

Again, why does one place now pay \$1.90 for the same service when others pay less than \$1.00 for the same 1,000 gallons? The company proposed for Tubac to pay **\$10.61** when over 20,001 gallons while Paradise Valley would pay **\$2.39** at 20,001 gallons. Why? So a small profit center made profit.

Only through a company-wide rate structure can the company comply with Section 12 and to accomplishing this, lower-income rates can be achieved with a low First Tier and Service Charge.

My Direct and Surrebuttal Testimonies contain more details than this brief summary. I expect to present my case on March 23 to explain my testimonies and to receive cross-examination.